

Auditor-General of South Africa

Endumeni Local Municipality  
Audit Report 2018-19

# Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and the council on the Endumeni Local Municipality

## Report on the audit of the financial statements

### Opinion

1. I have audited the financial statements of the Endumeni Local Municipality set out on pages x to x, which comprise the statement of financial position as at 30 June 2019, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual information for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Endumeni Local Municipality as at 30 June 2019, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2018 (Act No. 1 of 2018) (Dora).

### Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
4. I am independent of the municipality in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* and, parts 1 and 3 of the International Ethics Standards Board for Accountants' *International code of ethics for professional accountants (including International Independence Standards)* (IESBA codes) as well as the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA codes.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### Emphasis of matters

6. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### Material impairment and provision – trade and other receivables

7. As disclosed in note 5 to the financial statements, the municipality made a material provision for the impairment of trade and other receivables, totalling to the current movement of R9,55 million (2017-18: R12,91 million). This was due to debtors accounts that remained unpaid over a long period. The actual bad debts written-off amounted to R4,38 million. The write-off relates to consumers, who were subsequently declared indigent.

## **Material losses – electricity**

8. As disclosed in note 42,5 to the financial statements, material electricity distribution losses of R38,18 million (2017-18: R25,77 million) were incurred. Technical losses amounted to R12,06 million (2017-18: R10,90 million) and non-technical losses amounted to R26,68 million (2017-18: R17,98 million), which were mainly related to theft.

## **Other matter**

9. I draw attention to the matter below.

## **Unaudited disclosure notes**

10. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion on it.

## **Responsibilities of the accounting officer for the financial statements**

11. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA Standards of GRAP and the requirements of the MFMA and Dora, and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
12. In preparing the financial statements, the accounting officer is responsible for assessing the Endumeni Local Municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

## **Auditor-general's responsibilities for the audit of the financial statements**

13. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
14. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

## Report on the audit of the annual performance report

### Introduction and scope

15. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
16. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators/measures included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
17. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for **objective 2 – basic service delivery**, set out on pages x to x, as presented in the annual performance report of the municipality for the year ended 30 June 2019.
18. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
19. The material findings in respect of the usefulness and reliability of the selected objective are as follows:

### Objective 2 – basic service delivery

#### Various indicators – reported achievement not agreeing to audited value

20. The reported achievements of the indicators in the table below, as listed in the annual performance report, did not agree to the supporting evidence provided for auditing.

Indicator description	Reported achievement	Audited value
% of MIG Expenditure by 30 June 2019	100%	93,65%
Number (and percentage) of existing consumer units with access to electricity	46 677	13 532
Number (and percentage) of new consumer units with access to electricity	53	64
Number (and percentage) of existing consumer units with access to refuse removal at least once per week	35 732	8 156
Number of sites provided with security services	54	56

Indicator description	Reported achievement	Audited value
Number of Monthly Safety and Security reports submitted to the Manager Corporate Services	23	12
Number of municipal facilities maintained per annum	4	19
No. of m2 of surfaced roads resealed	26 599 m2	30 588 m2

### Various indicators not reported

21. The indicators listed below were approved in the service delivery and budget implementation plan (SDBIP) but were not included/reported on in the annual performance report.

Indicators	Planned targets
% INEP Expenditure by 30 June 2019	100%
Total amount of Small Town Grant expenditure by 30 June 2019	R2 000 000
Number (and percentage) of new consumer units with access to refuse removal at least once per week	1 152
Number of new housing units to be constructed by 30 June 2019	164
Date of completion of the Dundee Rural Horse Riding upgrade	2018/06/30

### Various planned indicators not consistent

22. Various planned indicators included in the integrated development plan (IDP) were not consistent with the SDBIP for the following six objectives:

Objectives	IDP	SDBIP
<b>1. Municipal transformation and institutional development</b>	Number of critical posts filled by 30 June 2018	% of critical identified posts filled
	target groups employed in the three highest levels of management in compliance with approved equity plan	Not recorded
	Date 2017/18 Annual Report adopted by Council	Date Final Annual Report submitted to council
	Date all policies reviewed & Adopted by Council	Date all HR policies reviewed
	% of cases resolved	Number of quarterly reports on litigation cases submitted to Municipal Manager
	Number of Special Programmes implemented within the Local Municipality	Not recorded
<b>2. Basic service delivery</b>	Number (and percentage) of new consumer units with access to electricity	Not recorded
	Date Human Settlement Sectoral Plan adopted by Council	
	Not recorded	Total amount of Small Town Grant expenditure by 30 June 2019
<b>3. Local economic development</b>	No. of business inspections conducted by 30 June 2019	Not recorded
	Date the Mayoral Business Engagement Session Held	
	No of LED jobs created through EPWP & CDW	Number CWP jobs created by 30 June 2019

Objectives	IDP	SDBIP
	Number of LED Forum Meetings Held	No. of 8-Aside Coalition Structure Quarterly Meeting held by 30th June 2019
	Date the Annual Tourism Operational Grant Transferred to Dundee Tourism	Not recorded
	Represent the Municipality in the Relevant Dundee Tourism CTO Strategic Meetings.	
	Date Informal Economy Policy Adopted	
	Date Informal Trading Facilities Constructed	
	Number of Endumeni LED Technical Support Implementation Progress Reports Submitted	
4. Good governance and public participation	Maintain an unqualified audit report from AG with no matters	Date unqualified audit report from AG with no matters obtained
	Comply with the traffic regulations	Number of road Safety interventions/campaigns conducted ( School Visits)
	Not recorded	Number of Batho Pele documents developed/ (Batho Pele Policy & procedure manual; Service Charter; Service implantation plan)
5. Municipal financial viability	Number of revenue enhancement interventions done	Not recorded
	Not recorded	Amount of reduction in electricity theft
6. Cross cutting	Number of Quarterly SPLUMA Applications Registers Submitted to Cogta	% of implementation of SPLUMA
	Date the Strategic Environmental Assessment Report adopted by Council	Date Environmental Management Plan provided with input
	Date the Endumeni Rural Nodal Plan Adopted by Council	Not recorded
	Date the Human Settlement Gap Housing Feasibility Study Report Adopted By Council	
	Number of Building Control & Compliance Quarterly reports submitted to Council	
	Date the Endumeni GIS Policy Adopted by Council	
	Date the GIS Hardwares; Softwares & Operational Needs Acquired	
	Date the Annual Municipal Land Audit Adopted by Council	
	Date the Annual Supplementary Valuation Roll Published by Council	
	Date the Selected Municipal Farms and Commonages Fenced	
	Date Reviewed Land Disposal Policy adopted by Council	

## Various indicators – reported targets not consistent

27. The following targets as reported in the annual performance report were not consistent with the approved targets as per the SDBIP:

Indicator description	Planned target per SDBIP	Reported target per annual performance report
Number (and percentage) of existing consumer units with access to refuse removal at least once per week	14 190	12 011
Number of facilities maintained	20	4
Number of sites provided with security	30	54
Number of m <sup>2</sup> of roads resealed	32 740m <sup>2</sup>	25 000m <sup>2</sup>

## Number of existing consumer units with access to electricity

28. The achievement for the target of “number of existing consumer units with access to electricity” reported in the annual performance report was 46 677. However, the supporting evidence provided could not substantiate the reported achievement, as 19 existing connections were reported as new connections, together with two consumers who could not be physically verified. Therefore, the total estimated misstatement is 32 849.

## Number of new consumer units with access to electricity

29. The achievement for the target of “number of new consumer units with access to electricity” reported in the annual performance report was 53. However, the supporting evidence provided could not substantiate the reported achievement, as seven existing consumer units were reported as new consumer units, one consumer was reported as achieved but work was not done, two new consumers were not reported, together with two consumers, who could not be physically verified. Therefore, the total estimated misstatement is 22.

## Date of completion of the Dundee rural horse riding upgrade

30. The indicator and related target of “date of completion of the Dundee rural horse riding upgrade” did not relate to the realisation of the municipality’s 2018-19 financial year. This is because the achievement of the indicator was measured and achieved in the prior financial year of 2017-18.

## Other matters

31. I draw attention to the matters below.

## Achievement of planned targets

32. The annual performance report on pages x to x includes information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 20 to 30 of this report.

## Adjustment of material misstatements

33. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of the basic service delivery objective. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

## Report on the audit of compliance with legislation

### Introduction and scope

34. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
35. The material findings on compliance with specific matters in key legislation are as follows:

### Strategic planning

36. The review of the IDP was not done in accordance with the results of the performance evaluation and to the extent that changing circumstances demanded, as required by sections 34(a) and 41(1)(c)(ii) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA).
37. A performance management system was not adopted, as required by regulation 8 of the Municipal Planning and Performance Management Regulations of 2001 (GNR. 796 dated 24 August 2001).

### Financial statements

38. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements in property, plant and equipment, investment property, irregular expenditure, as well as fruitless and wasteful expenditure identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

### Human resource management

39. Appointments were made in posts which were not provided for in the approved staff establishment, as required by section 66(3) of the MSA.

### Expenditure management

40. Reasonable steps were not taken to prevent irregular expenditure amounting to R44,12 million as disclosed in note 40 to the financial statements, as required by section 62(1)(d) of the MFMA. The majority (67,73%) of this expenditure resulted mainly from awards made by a bid adjudication committee that was not properly constituted.



41. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R148 332, as disclosed in note 39 to the financial statements, in contravention of section 62(1)(d) of the MFMA.
42. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R9,55 million, as disclosed in note 39 to the financial statements, in contravention of section 62(1)(d) of the MFMA.

### **Consequence management**

43. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.
44. Irregular expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.
45. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

### **Procurement and contract management**

46. Some quotations were accepted from bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by regulation 13(c) of the Municipal Supply Chain Management Regulations of 2005 (GNR. 868 dated 30 May 2005) (MSCMR).
47. Some contracts were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by regulation 13(c) of the MSCMR.
48. Some goods and services with a transaction value above R200 000 were procured without inviting competitive bids, as required by regulation 19(a) of the MSCMR.
49. Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of regulation 36(1) of the MSCMR. Similar non-compliance was also reported in the prior year.
50. Competitive bids were adjudicated by a bid adjudication committee that was not composed in accordance with regulation 29(2) of the MSCMR. Similar non-compliance was also reported in the prior year.
51. Some of the bid documentation for the procurement of commodities designated for local production and content did not stipulate the minimum threshold for local production and content, as required by regulation 8(2) of the Preferential Procurement Regulations of 2017 (GNR. 40553 dated 20 January 2017) (PPR).
52. Some contracts and quotations were awarded to bidders based on functionality criteria that were not stipulated in the original invitation for bidding and quotations, in contravention of regulation 5(6) of the PPR.

53. Awards were made to providers who were in the service of other state institutions or whose directors were in the service of other state institutions, in contravention of section 112(j) of the MFMA and regulation 44 of the MSCMR.
54. Persons in the service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality failed to disclose such interest, in contravention of the code of conduct for staff members issued in terms of the MSA.

#### Other information

55. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and the selected objective presented in the annual performance report that has been specifically reported on this auditor's report.
56. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
57. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected objective presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
58. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, and if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

#### Internal control deficiencies

59. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and the findings on compliance with legislation included in this report.
60. The financial statements and annual performance report contained numerous material misstatements that were not corrected. These were mainly due to the inadequate application of the financial reporting framework and a lack of proper management reviews of quarterly, mid-year and annual performance reports to ensure that they were supported by reliable and complete information.
61. Management did not adequately review and monitor the internal controls to ensure that the laws and regulations applicable to the municipality were complied with.

## Other reports

62. I draw attention to the following engagements that had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These engagements do not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.
63. According to Presidential Proclamation No. R.35 of 2018 published on 14 December 2018 in Government Gazette No. 42101, the Special Investigating Unit was tasked to probe allegations of maladministration, fraud and corruption at the municipality covering the period 1 July 2016 to 14 December 2018. The investigation was completed and the report was presented to the municipality to implement the recommendations.
64. The Department of Cooperative Governance and Traditional Affairs initiated a forensic investigation relating to allegations of fraud against certain municipal officials, which was concluded on 14 September 2018. The report was presented to the municipality to implement the recommendations.
65. The municipality instituted a forensic investigation relating to discrepancies with regard to the allocation of RDP houses to beneficiaries. The investigation was completed and the report was presented to the municipality to implement the recommendations.

*Auditor-General*

Pietermaritzburg

30 November 2019



AUDITOR - GENERAL  
SOUTH AFRICA

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## **Annexure – Auditor-general’s responsibility for the audit**

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected objectives and on the municipality’s compliance with respect to the selected subject matters.

### **Financial statements**

2. In addition to my responsibility for the audit of the financial statements as described in this auditor’s report, I also:
  - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
  - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality’s internal control
  - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
  - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Endumeni Local Municipality’s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor’s report. However, future events or conditions may cause a municipality to cease continuing as a going concern
  - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

### **Communication with those charged with governance**

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.